

2011 Year-End Tax Planning

Dear Valued Client:

Twenty five years ago, Congress overhauled the Tax Code in the Tax Reform Act of 1986. At that time, the 1986 Tax Reform Act was lauded for simplifying a Tax Code that had grown too complex. Since 1986, complexity has return to the Tax Code, largely because Congress has enacted a host of temporary tax incentives with a variety of expiration dates. Today, many taxpayers are trying to navigate all of this complexity as they draft their 2011 year-end tax plans. This letter highlights some of the more widely-utilized 2011 year-end tax strategies for individuals and businesses.

Planning complications

Few tax laws have complicated tax planning as much as the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and its progeny. EGTRRA was enacted as a temporary tax law. Its supporters predicted that a future Congress would make EGTRRA permanent. Some of EGTRRA's retirement savings provisions were made permanent in 2004. Other provisions, however, have been extended one or two years at a time. The most recent extension of EGTRRA was in the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (2010 Tax Relief Act). Many of the extended tax provisions are scheduled to expire at the end of 2011 or the end of 2012.

Uncertainty over the fate of the expiring tax provisions makes year-end 2011 tax planning a challenge for many individuals and businesses. Fortunately, we know that certain tax incentives will be available through the end of 2011 and others through the end of 2012. Additionally, some traditional year-end tax planning strategies are valuable even with all the uncertainty.

In this letter, we have assembled a checklist of some year-end planning strategies for individuals and businesses. Every taxpayer's situation is different. Please contact our office at 831.759.6300 or info@hw-cpa.com to schedule a time to discuss your year-end tax planning in detail.

Individuals

Income/deduction shifting. Income and deduction shifting is a traditional year-end tax strategy that is worth a look at year-end 2011. However, one key complication is uncertainty over the individual income tax rates after 2012. We know that the individual income tax rates will be 10, 15, 25, 28, 33, and 35 percent for 2012. Under current law, the 10 percent rate is scheduled to expire after December 31, 2012 and the remaining rates are scheduled to revert to 15, 28, 31, 36, and 39.6 percent after December 31, 2012 (unless extended by Congress).

As a result, some taxpayers may want to abandon the traditional strategy of shifting income into a future year and recognize income in 2011 or 2012 when the lower rates are available. [Download our 2011 Tax Rates Guide](#) that provides tax rate calculations as well as social security, education and other tax rate information. You can also find it under the Resources tab on our Website.

Capital gains/dividends. Reduced tax rates on qualified dividends and capital gains are scheduled to expire after December 31, 2012 (unless extended by Congress). Taxpayers need to carefully review when to recognize income from qualified capital gains and dividends to maximize their tax savings in 2011 or 2012.

AMT. For many individuals, year-end tax planning requires “running the numbers” for regular federal tax liability and alternative minimum tax (AMT) liability and this year is no exception. Taxpayers may want to explore if certain deductions should be more evenly divided between 2011 and 2012 and which deductions may qualify, or will not be as valuable for AMT purposes.

Gift tax exclusion. Many individuals overlook gift giving as a year-end tax strategy. Under current law, the annual gift tax exclusion per recipient on which no gift tax is due is \$13,000 for 2011. Married couples may make combined tax-free gifts of \$26,000 to each recipient. Use of a “lifetime” estate and gift tax exclusion should also be considered for larger gifts.

For more information related to gift giving and charitable donations, read our [Giving is Receiving at Year End](#) and [Gift Tax Exclusion Increase Means New Planning Opportunities](#) Newsroom articles.

Big ticket purchases. Taxpayers planning a big ticket purchase in 2012 may want to accelerate that purchase into 2011 to take advantage of the deduction for state and local general sales taxes. The deduction for state and local general sales taxes is scheduled to expire after December 31, 2011 (unless extended by Congress). Taxpayers may take the deduction for state and local general sales taxes in lieu of the deduction for state and local income taxes.

Energy improvements. In recent years, Congress has enacted a number of tax incentives to encourage homeowners to make energy efficient improvements to their primary residences. The Code Sec. 25C tax credit for certain non-business energy property is scheduled to expire after December 31, 2011 (unless extended by Congress). The credit is complex; if you are considering installing energy efficient improvements such as windows, doors, heat pumps or other items, please contact our office at 831.759.6300 or info@hw-cpa.com to determine if your purchases qualify for the credit.

More incentives. More individual incentives scheduled to expire after December 31, 2011 include (not an exhaustive list):

- Employee-side payroll tax cut
- Above-the-line deduction for qualified tuition and related expenses
- Tax-free distributions from individual retirement plans for charitable purposes by individuals age 70 ½ and older
- Deduction for classroom expenses of qualified educators
- Parity for exclusion from income for employer-provided mass transit and parking benefits
- Premiums for mortgage insurance deductible as interest that is qualified residence interest
- Expansion of adoption credit and adoption assistance

Businesses

Bonus depreciation. Business taxpayers have a limited window in which to take advantage of 100 percent bonus depreciation (unless extended by Congress). One hundred percent bonus depreciation applies to qualified property acquired after September 8, 2010 and before January 1, 2012, and placed in service before January 1, 2012 (or before January 1, 2013 for certain longer-lived and transportation property).

Code Sec. 179 expensing. Business taxpayers also have a limited window in which to take advantage of enhanced Code Sec. 179 expensing (unless extended by Congress). For tax years beginning in 2010 and 2011, the Code Sec. 179 dollar limit is \$500,000 and the investment limit is \$2 million. The dollar limit for 2012 is scheduled to fall to \$125,000 (indexed for inflation at \$139,000) and the investment limit is scheduled to fall to \$500,000 (\$560,000 indexed for inflation). Keep in mind that Code Sec. 179 expensing is also allowed for off-the-shelf computer software placed in service in tax years beginning before 2012.

Real property expensing. After 2011, special expensing rules for qualified real property are scheduled to expire (unless extended by Congress). A taxpayer that places qualified leasehold improvement property, qualified restaurant property or qualified retail improvement property in service in a tax year that begins in 2010 or 2011 may elect to treat the property as Code Sec. 179 property and expense under Code Sec. 179 up to \$250,000 of the cost of the property.

Work Opportunity Tax Credit (WOTC). WOTC is scheduled to expire after December 31, 2011 (unless extended by Congress). The WOTC rewards employers that hire individuals from one of nine groups of targeted job seekers. Under current law, the WOTC applies to wages paid to qualified individuals who begin work for the employer before January 1, 2012.

Research tax credit. The research tax credit is designed to encourage businesses to increase their spending on research and development of new technologies. The 2010 Tax Relief Act extended the credit through December 31, 2011.

Differential wage payments. Employers may qualify for a tax credit for differential wage payments made to employees called up for military duty. Under current law, the credit applies to wage payments made through December 31, 2011 (unless extended by Congress).

Federal Unemployment Tax Action (FUTA) surtax. The 0.2 percent FUTA surtax expired after June 30, 2011. As a result, the FUTA tax rate falls to 6.0 percent for the remaining six months of 2011 before any state unemployment tax credits are taken into account. The IRS has indicated it will provide guidance for employers. Our office will keep you posted of developments. To read about what FUTA will become after January 1, 2012, go to the [Federal Unemployment Tax Act Credit Reduction in 2012](#) article in our Newsroom.

Energy tax incentives. A number of tax credits for alcohol fuels and biodiesel/renewable diesel will expire after December 31, 2011 (unless extended by Congress). Tax credit for construction of new energy efficient homes and manufacture of energy efficient appliances will also expire after December 31, 2011 (unless extended by Congress).

More incentives. More business incentives scheduled to expire after December 31, 2011 include (not an exhaustive list):

- Indian employment tax credit
- Railroad track maintenance tax credit
- Mine rescue team training tax credit
- Grants for specified energy property in lieu of tax credits
- Seven-year recovery period for motorsports entertainment complexes
- Special expensing rules for film and television production costs
- Expensing of brownfields remediation costs

- Exceptions under Subpart F for active financing income
- Percentage depletion for oil and gas from marginal wells

California Highlights

- Salinas Valley Enterprise Zone (EZ) expanded to Castroville on July 11, 2011– Incentives such as EZ Hire Credit, EZ Sales Tax Credit & EZ Business Expense Deduction
- New Jobs Credit still available – up to \$3,000 for each additional full-time qualified employee
- Adding real estate tax deduction to new Schedule CA
- Mandatory e-pay 1% Penalty – payments over \$20,000 or tax liability over \$80,000
- Nonresident reduced withholding request – online submission or mail only
- Reduced or no withholding for foreign partners
- New Schedule EO (565/568) – Pass-through entity ownership
- Net Operating Loss – Suspended carryover periods clarified
- Head of Household Audits – approximately 135,000 audit letters mailed in 2011

If you have any questions about the tax incentives and your 2011 year-end tax plans, please contact our office at 831.759.6300 or e-mail info@hw-cpa.com to schedule an appointment.

Sincerely yours,

HAYASHI & WAYLAND
ACCOUNTING & CONSULTING, LLP

P.S. If you would like to stay up-to-date on tax and law changes, and other firm news [click here to sign up](#) to receive our quarterly e-Newsletter and [follow us on Facebook](#).